PASSIVE & LOW ENERGY CONSUMPTION PROPERTIES

Occupiers' perspective

8th of February 2018

Michael Taelman

Senior Director - CBRE



Circle of Blame

Occupiers:

« We would like to have sustainable buildings but there are very few of them »

Builders:

« We can build sustainable buildings but developers don't ask for them »

Investors:

« We would fund sustainable buildings but there is no demand for them them »

Developpers:

« We would ask for sustainable buildings but investors won't pay for them »



How some occupiers still see passive buildings









- The regulation requiring all new construction in Brussels to be passive is up and running since 2015.
- Market did not wait for this to provide passive properties. In 2011, according to Brussels Environnement/Milieu Brussel, there was 250.000sqm of passive buildings in Brussels.



- In terms of office buildings, prior to 2010, most of the first passive ones were ordered by their future occupiers.
- It generates sometimes biased impressions from those occupiers since we are often more enthusiastic about a property we own than a property we rent.



- However since 2015 the quantity of passive office properties is of course exploding.
- It allow us to benefit of a larger panel of properties and "panel" is the right word.
- There are indeed many different levels of comfort to be expected from passive properties exactly like from non passive buildings.



- The question as « what is the feedback from occupiers about passive buildings » is way too broad.
- We should ask:
 - What do they like in passive buildings?
 - What do they want to avoid?
 - Are passive buildings a need or a nice-to-have?



What do they like?







Finance

Financial impact on charges?

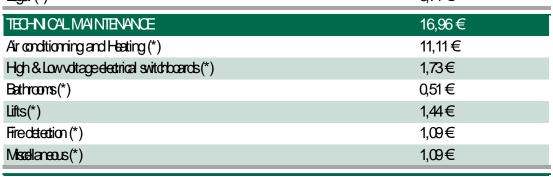
Office building - Average Maintenance and Management costs exd. VAT office property

(*) show costs included into service charges

PEOPLEAND GOODS	41,91 €
Full time Receptionist (*)	3,80€
Insurance(*)	1,84€
Value common areas(*)	2,19€
Water private areas	0,81€
Energy consumption heating/cooling (*)	10,00€
Electricity common areas (*)	12,80€
Electricity private areas	8,74€
Carbage (*)	1,04€
Legal (*)	0,71€
TECHNICAL MAINTENANCE	16.96.€

Average cost for a 10,000sqm office property.





Finance

CENERAL MAINTENANCE	19,43 €
Chearing office space	15,00€
Cleaning parking and windows (*)	2,76€
Garden & paths(*)	0,89€
Mstellaneous(*)	0,98€
CONFORT & SECURITY	28,41 €
Security inspections at night & weekends	2,42€
Detancemenagement (*)	0,98€
Technical support help deak (7.30am04.00pm)	2,01€
247 onsitewarden	23,00€
Grand total - warden 24/7 exduded	83,70 €

(*) show costs included into service charges

With an average rent in Brussels @ 170€/sqm and average taxes @ 50€/sqm it shows a total of circa 300€/sqm per year all in from which circa 30€ are realted to energy. Assuming an optimistic 50% reduction in a passive new building it would mean 5% savings on total annual cost.



Finance

- A premium used to be asked in the rent for new passive office properties prior to 2015.
- Today every new Brussels property is passive.
 The premium is therefore entirely considered as being justified by the age of the property rather their passive specifications.



« Green » is the new black

Wal-Mart launches its new image

By David Litterick in Bentonville

the way it treats its employees radio network. and local communities by Wal-Mart has long strug boosting its health care progled with its image. Critics grammes and introducing contend that, as well as treatplans to help local businesses ing employees badly, close to its massive super- destroys communities and has

the world's largest retailer have portrayed the company begins its second annual proud of its small-town roots media conference in an as "the bully of Bentonville", a attempt to deflect the negative small town in Arkansas. Walimage it has in the minds of Mart first held the media

employees have to serve before becoming eligible for the company's record, highhealth care.

be able to enrol their children 400 jobs at a new store in in health programmes. The California. They pointed to cost of workers' prescription new stores that are being built drugs will also be cut.

private-sector employer with works with communities, with more than 1.3m workers, is the example of a store in the facing criticism from oppo- Amish country of Ohio, which nents who say that it pays comes equipped with hitching poverty-level wages and pro-vides such limited health care However, its p benefits that some of its go down as well with tradiemployees are forced to resort tional major suppliers, who to government handouts.

rival small businesses, from merchandise and add more balteries to hardware stores, exclusive brands to reduce focuses on blighted urban inventory and boost sales in a markets where the retailer bid to take on rivals such as plans to open 50 stores within Target.

the next two years. The efforts will range from giving businesses financial grants to WAL-MART has bowed to producing free radio ads that mountains of criticism over will be broadcast on its stores'

The concessions come as A host of books and films many consumers.

From next month, Wal-Mart will have the length of time growth and bad publicity.

Top executives defended health care. lighting that 11,000 people Part-time workers will also had recently applied for just Wal-Mart, the largest US and stressed that the company

However, its plans may not o government handouts. could well be hurt by the Wal-Mart's proposal to help company's plans to upgrade

Wal-Mart had for long a poor image. On top of badly behaving with their employees, critics were made on it low environmental performance.

The company significantly improved its image over the last years and real estate played a strong role.

« Green » is the new black

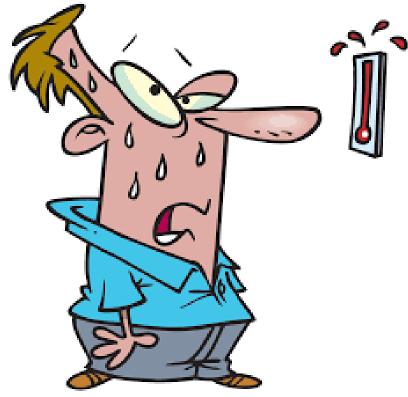
Corenet has an inter-professional committee in charge of corporate social responsibility, diversity, charities, etc. EMEA group was initially meeting once per quarter, but in the light of the work load it is now meeting once a month.

Almost 40% of actions taken by the group are articulated around real estate.



What do they want to avoid?







What do they want to avoid?

One of the key point of attention is therefore:

Comfort

For most of the people comfort and energy efficiency seems to be two totally separated concepts almost impossible to meet at the same time. This is mainly due to the fact that:

Comfort is subjective



What do they want to avoid?





Need or Nice-to-have?

Probably the key question:

Do occupiers really ask for this kind of properties or do they chose their properties for entirely other reasons?



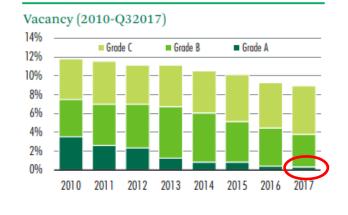
Occupiers

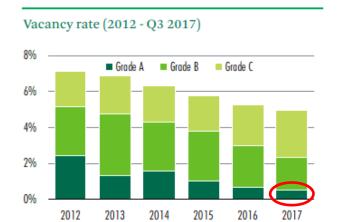
- The most accurate way to answer this question is to take a look at request for proposals (RFP) issued for property search and the answer nuanced:
 - Corporate: no mention in the major RFP issued over the last 5 years of a requirement or even a demand for passive properties.
 - Public: nearly all RFP issued by public entities are requesting passive buildings ... except EU.



Vacancy rate

CBD

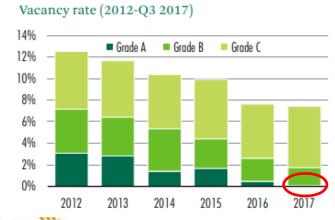


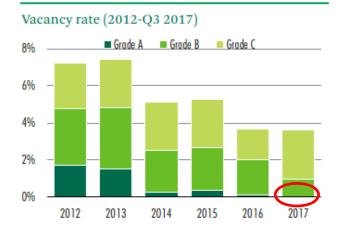


Leopold district

Louise district

for HVAC professionals

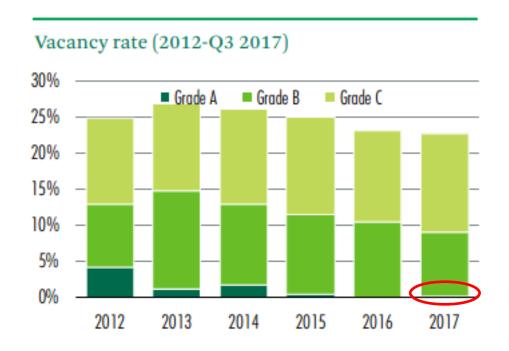




North district

Vacancy rate

Periphery





- Vicious circle of blame:
 - Thanks to Brussels regulation with regard to passive buildings this circle has now been broken.
 - However this speech is still available outside Brussels borders.
- Many occupiers still have archaic perception of passive buildings, many work still to do to change minds.



- A high level of comfort is the main element that can ensure the "buy in" of passive office buildings from occupiers.
- So far very few track record but most of the opposition is using this argument so peculiar attention need to be brought to this subject.



- Still not much track record with regard to use of passive office properties.
- This should change in the next 5 years while the first set of passive office buildings will start to see some turnover from their occupiers.
- It will also provide more information about how those properties are getting older.



- Most of occupiers are underscoring that their main expectations are:
 - Financial: we have seen it plays a role but this last is so far marginal; and
 - Image: this one is probably more efficient but since 2015 every new property is passive so the recognition related to the "choice" of a passive building will probably disappear.
 - So far we see few RFP from corporate sector with such requirement.



- Vacancy rate for new properties his historically low in Brussels.
- A logic conclusion would be to consider this as an impact of 2015 regulation.
- It probably played a role but when we consider Brussels periphery, where such regulation is not yet applicable, we observe similar vacancy rate amongst new properties.



What if?



Tihange



What if?

- Passive buildings implies airtightness and therefore mechanical ventilation.
- Energy production is today in the heart of political and security discussions.
- With regard to the current Doel & Thiange situation it is not absurd to condiser we might encounter energy supply issues in a near future.



What if?

 While apparently a power outage of one hour or two is not such an issue with regard to residential properties, consequences could be much more difficult to manage in a densely used office building.

